

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2002-331-S - ORDER NO. 2003-31  
JANUARY 21, 2003

IN RE: Joint Application for Approval of the ) ORDER  
Acquisition by Philadelphia Suburban ) APPROVING  
Corporation of the Stock of AquaSource ) TRANSACTION  
Utility, Inc. and the Resulting Transfer of a )  
Controlling Interest in Brookside Sewer )  
District, Inc.

This matter comes before the Public Service Commission of South Carolina (the Commission) on the joint application of Philadelphia Suburban Corporation (PSC), AquaSource Utility, Inc. (AquaSource Utility) and Brookside Sewer District, Inc. (Brookside)(collectively, the Applicants) for approval of the transfer of stock ownership in AquaSource, the sole owner of Brookside's stock, from AquaSource, Inc. to PSC. With this transfer, the ultimate ownership and control of Brookside will rest with PSC, rather than DQE, Inc., the current parent of AquaSource, Inc. This transfer will include Brookside's sewer facilities, territory, certificates, permits, powers, and privileges. The Brookside service area includes the Brookside subdivision, located in Spartanburg County, South Carolina.

Pursuant to the instructions of the Commission's Executive Director, the Applicants published a Notice of Filing one time in newspapers of general circulation in Brookside's service area, and notified all affected customers. The Applicants furnished

proof of publication. No Protests or Petitions to Intervene were filed. The Applicants moved for expedited review of this matter. They have also filed verified testimony. We grant expedited review and hold that the Commission meeting of January 14, 2003, wherein we considered the matter and the verified testimony, shall constitute the hearing in this matter.

The Applicants filed the verified testimony of David P. Smeltzer, Senior Vice President and Chief Financial Officer of PSC. Smeltzer noted that the Brookside Village subdivision is located in Wellford, South Carolina and currently serves approximately 420 customers, all but two of which are residential.

Smeltzer states that on July 29, 2002, PSC Aqua Acquisition Corporation (Acquisition), DQE, and AquaSource, Inc. entered into a Purchase Agreement, whereby PSC will acquire all of the issued and outstanding shares of common stock and 90 of the 100 outstanding shares of preferred stock of AquaSource Utility; all of the issued and outstanding shares of common stock of AquaSource Development Company; and all of the issued and outstanding shares of common stock of the Reynolds Group, Inc. Also, Acquisition was to purchase certain non-regulated assets, consisting largely of contract operating agreements with various water and wastewater service providers. Under the agreement, Brookside would remain a first tier subsidiary of AquaSource Utility and would become a second tier subsidiary of PSC. In essence, PSC would replace DQE in the ownership chain and would become the ultimate parent company of Brookside.

According to PSC, it is committed to providing adequate, efficient, safe and reliable water and wastewater service, and the Company intends to rely substantially

upon current local management to operate Brookside. The acquisition by PSC should have no immediate effect on customer service. However, according to PSC, the combined entity that will result from the proposed transfer, by virtue of its greater resources, will be better positioned to meet future demands and ensure that the high quality of service presently being provided is maintained. Therefore, the proposed transaction will have a positive impact on the service provided by Brookside over the long term.

Smeltzer states that the rates, rules, regulations, and terms and conditions of service in effect on the date of closing will not change as a result of the acquisition. Further, according to him, going forward, the economies of scale and scope resulting from the acquisition may help to partially offset the ongoing rise in the cost of providing wastewater service and therefore moderate somewhat the magnitude of future rate increase requests. Further, no material changes in local staffing or compensation are anticipated at the present time. Smeltzer states that Brookside's customers will continue to be served by essentially the same organization on which they have depended in the past.

Smeltzer states the belief that the proposed transfer would make Brookside part of an experienced company and industry leader (PSC) whose sole focus is the provision of high-quality water and wastewater utility service at reasonable rates. PSC has access to capital, and has recognized strengths in system planning, capital budgeting, and construction management. PSC has also worked in partnership with State and local officials to address the specific challenges faced by smaller systems like Brookside with

respect to ever-growing and evolving wastewater collection and disposal compliance standards.

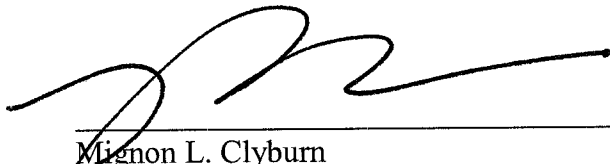
According to Smeltzer, the proposed transfer will have a positive impact on the public interest. We would note that 26 S.C. Regs. 103-504 (Supp. 2002) states that this Commission must, in the case of acquisition, grant a certificate that the acquisition is in the public interest, or that public convenience and necessity require or will require the operation of any utility system.

We have examined this matter, including the verified testimony and the entire record before this Commission, and have concluded that the requisite certificate should be granted, since the transfer of stock as requested in this docket is in the public interest. We believe that Company witness Smeltzer states many good reasons why the certificate should be granted, many of which we have already cited above. We think that Brookside becoming part of PSC is a positive thing, since PSC has access to capital, has recognized strengths in system planning, capital budgeting, and construction management, and in addition, it has worked in partnership to address the challenges faced by smaller systems. We believe further that the combined entity that will result from the proposed transfer, by virtue of its greater resources, will be better positioned to meet future demands and ensure that the quality of service presently being provided is maintained. The proposed transaction will have a positive impact on the service provided by Brookside over the long term. We would note that the rates, rules, regulations, and terms and conditions of service in effect on the date of closing will not change as a result of the acquisition.

In short, we grant the requisite certificate, and approve the proposed transaction as filed.

This Order shall remain in full force and effect until further Order of the Commission.

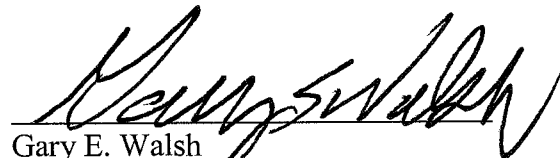
BY ORDER OF THE COMMISSION:



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Mignon L. Clyburn  
Chairman

ATTEST:



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Gary E. Walsh  
Executive Director

(SEAL)